



Arizona State Retirement System

3300 North Central Avenue, Phoenix, AZ 85012
WWW.ASRS.STATE.AZ.US

Special Notice **Rural Subsidy Changes**

May 27, 2005

Legislation that extends the ASRS Rural Health Insurance Subsidy for two more years, through June 30, 2007 for Medicare-eligible retirees living in Arizona counties with no HMO service area, has been signed into law by Governor Napolitano.

The rural subsidy extension, contained in House Bill 2621, becomes effective July 1, 2005. It ranges from \$85 a month to \$350 a month, depending on coverage options selected and years of service at the time of retirement and applies only to Medicare eligible retirees living in Coconino, Yavapai, Mohave, Gila, Apache and Navajo counties.

Since 2001, the ASRS has provided a temporary health insurance premium benefit to retirees living in rural areas of the state where no HMO exists. This "rural subsidy" helps offset the high cost of health insurance and is in addition to the Health Insurance Premium Benefit all retirees are eligible to receive.

The rural subsidy was meant to be temporary, and was first authorized for two years by the state Legislature in 2001 and extended for an additional two years in 2003. The current rural subsidy is set to expire on June 30, 2005.

Over the past year the ASRS has negotiated with health care providers and has added HMO options to six rural counties in central and southern Arizona, which now no longer qualify for the subsidy.

The ASRS has been addressing the retiree health insurance issue for the past two years. In June 2004, the ASRS Board of Trustees awarded a contract to PacifiCare of Arizona to administer the ASRS retiree health insurance plan. The contract, effective through 2006, keeps plan provisions and premiums the same and, in some cases, significantly lowers premiums. In addition to extending HMO options to several new counties effective July 2005, HMO options will be added to Coconino and Yavapai counties in January 2006. At that time, Medicare-eligible retirees in those two counties will have a choice in health care plans and will no longer need the benefit of the rural subsidy.

This year, the rural subsidy was provided to more than 6,600 retirees at a cost of approximately \$1.4 million a month. Under the new legislation, costs will decrease to approximately \$587,000 per month from July 1 through Dec. 31, and again decrease to \$277,000 a month when a Medicare HMO becomes available in Coconino and Yavapai counties on Jan. 1, 2006.

The ASRS Basic Retiree Health Insurance Premium Benefit program is not affected by the new legislation and will continue to be paid monthly to all eligible retirees. It ranges from \$75 to \$260 per month, again depending on coverage selected and years of service at the time of retirement.

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